

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 184 - HB 987

March 24, 2021

SUMMARY OF BILL: Eliminates the \$400 occupational privilege tax for tax years ending on or after May 31, 2023.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$67,649,300/FY21-22 and Subsequent Years

Decrease State Expenditures – \$826,800/FY21-22 and Subsequent Years

Increase Local Revenue – \$231,900/FY21-22 and Subsequent Years

Assumptions:

- Taxes for tax year ending May 31, 2023 are due on June 1, 2022; therefore, the first-year impact will be in FY21-22.
- According to the Department of Revenue (DOR), there were 170,544 taxpayers in 2020 in the categories becoming exempt by this proposed legislation.
- The recurring decrease in state revenue beginning in FY21-22 is estimated to be \$68,217,600 (170,544 x \$400).
- For government employees that are subject to the occupational privilege tax, the agency they work for will pay the \$400 fee.
- Based on information from the Department of Human Resources, it is estimated that the state pays for 2,067 persons that would be exempt under the proposed legislation.
- The recurring decrease in state expenditures beginning in FY21-22 is \$826,800 (2,067 x \$400).
- Based on information from DOR, 75 percent (127,854 out-of-state / 170,544 total) of taxpayers in these occupations are estimated to be out-of-state.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent
- Fifty percent of tax savings from in-state taxpayers, net of the amount paid by the state on behalf of such taxpayers, or \$8,423,850 $\{ [(\$68,217,600 - \$826,800) \times (1-.75)] \times 50\% \}$ will be spent in the economy on sales-taxable goods and services.
- The recurring increase in state sales tax collections is estimated to be \$568,341 $\{ [(\$8,423,850 \times 7.0\%) - (\$8,423,850 \times 7.0\% \times 3.617\%)] \}$ beginning in FY21-22.

- The recurring increase in local sales tax collections is estimated to be \$231,925 $[(\$8,423,850 \times 2.5\%) + (\$8,423,850 \times 7.0\% \times 3.617\%)]$ beginning in FY21-22.
- The net recurring decrease in state revenue as a result of this legislation is estimated to be \$67,649,259 $(\$68,217,600 - \$568,341)$ beginning in FY21-22.
- Occupational privilege tax returns are filed electronically and the Department does not have any staff dedicated to this tax. Therefore, there will be no staff reductions as a result of eliminating the occupational privilege tax.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink that reads "Krista Lee Carsner". The signature is written in a cursive, flowing style.

Krista Lee Carsner, Executive Director

/aw